

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 L-03 H-01 PA-01 PRS-01 IGA-02 /086 W  
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R 180814Z JAN 77  
FM AMEMBASSY BEIRUT  
TO SECSTATE WASHDC 2759  
INFO AMEMBASSY AMMAN  
AMEMBASSY CAIRO  
AMEMBASSY DAMASCUS  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY TEHRAN  
AMEMBASSY TEL AVIV

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E.O. 11652: N/A  
TAGS: EAID, LE, US  
SUBJECT: AL-HOSS ON RECONSTRUCTION

REF: BEIRUT 0078

1. SUMMARY. IN A TOUR D'HORIZON WITH THE US TECHNICAL TEAM, PRIME  
MINISTER SALIM AL-HOSS SAID THE GOL HAD NOT MADE A RELIABLE SURVEY OF  
DAMAGES WHICH OCCURRED DURING THE RECENT CIVIL STRIFE. NEVERTHELESS,  
HE ESTIMATED "DIRECT MATERIAL LOSSES" HAD BEEN LL 7.5 BILLION: LL 1.2

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BILLION IN THE PUBLIC SECTOR AND LL 6.25 BILLION IN THE PRIVATE  
SECTOR.

IMMEDIATE RELIEF NEEDS NOW TOOK PRIORITY OVER LONG-TERM RECONSTRUCTIO  
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ACCORDING TO AL-HOSS, IN PART BECAUSE THE GOVERNMENT HAD NOT YET PRE-  
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PARED PLANS TO DEAL WITH MORE THAN THE NEAR FUTURE. IN THIS REGARD,  
THE GOL HAD DECIDED THAT A SOON TO BE CREATED DEVELOPMENT AND RECON-  
STRUCTION BOARD WOULD REPLACE THE MINISTRY OF PLANNING, WHICH WAS  
STRANGLING IN ITS OWN RED TAPE. OVER THE LONG TERM, LEBANON HOPED TO  
PRESERVE A FREE ENTERPRISE SYSTEM, BUT TO ELIMINATE PAST ABUSES WHICH  
LED TO UNEVEN DISTRIBUTION OF BENEFITS AND AN OVEREMPHASIS ON BEIRUT.  
TO AVOID CUMBERSOM BUREAUCRACIES, THE GOL WOULD RELY ON THE BANKS TO

FINANCE MOST PRIVATE REDEVELOPMENT, BUT WOULD HELP THEM MAKE LONG-TERM LOANS AT LOW RATES OF INTEREST. THE GOL COULD FIND COMMERCIAL MONEY TO REPAIR PUBLIC FACILITIES, BUT WOULD NEED "SOFT LOANS" FROM ABROAD FOR THE PRIVATE SECTOR. AL-HOSS ALSO EXPRESSED GREAT INTEREST IN OBTAINING LONG-TERM, LOW-COST FINANCING FROM THE US. END SUMMARY.

2. PRIME MINISTER SALIM AL-HOSS RECEIVED THE VISITING AMERICAN TECHNICAL TEAM ON JAN 9, THE DAY OF ITS ARRIVAL IN LEBANON, AT HIS HOMEIN

THE SUBURBS OF BEIRUT. IN THE COURSE OF A ONE HOUR PRESENTATION OF LEBANON'S SOCIAL AND ECONOMIC PROBLEMS, THE PRIME MINISTER MADE THE FOLLOWING REMARKS:

3. ESTIMATE OF DAMAGES.

A. THE GOL HAD NOT MADE A RELIABLE SURVEY OF DAMAGES, BUT NEVERTHELESS ESTIMATED THAT "DIRECT MATERIAL LOSSES" HAD BEEN OF THE "ORDER OF MAGNITUDE" OF LL 7.5 BILLION: LL 1.25 BILLION IN THE PUBLICSECTOR

AND LL 6.25 BILLION IN THE PRIVATE SECTOR, INCLUDING LL 2 BILLION IN GOODS LOOTED FROM THE PORT AND ELSEWHERE. ALL ESTIMATES WERE, HOWEVER

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"SUBJECT TO A WIDE MARGINO OF ERROR."

B. THE "DIRECT MATERIAL LOSSES" EXCLUDED OTHER VERY IMPORTANT DAMAGES: CASH STOLEN OR DESTROYED, DEBTS UNPAID, DESTRUCTION OF THE ARMY, AND PERHAPS MOST IMPORTANTLY, A LOSS OF MUTUAL TRUST AMONG LEBANESE. IN ADDTIION, OVER LL 20 BILLION IN NATIONAL INCOME HAD BEEN LOST AND THE BUDGETARY PROCESS HAD BEEN DISRUPTED. IN 1974 THE BUDGET SHOWED A SURPLUS, BUT IN 1976 WAS IN DEFICIT BY LL 800 MILLION. MORE-LIMITED OFFICIAL USE

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OVER, THE GOL WOULD NEED TO INCUR AN ADDITIONAL LL 3 BILLION IN DEFICITS BEFORE THE BUDGET WAS ONCE AGAIN BALANCED.

4. PRIORITY TO RELIEF. LEBANON HAD TWO TYPES OF NEEDS: SHORT-TERM RELIEF AND LONG-TERM RECONSTRUCTION. RELIEF NOW TOOK PRIORITY BECAUSE THE

GOL HAD TO BE RESPONSIVE TO THE PEOPLE'S IMMEDIATE SOCIAL NEEDS, I.E.

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IT MUST HELP THE WOUNDED, THE UNEMPLOYED, AND "MOST IMPORTANTLY" HUNDREDS OF THOUSANDS OF DISPLACED PERSONS. AS PART OF THE RELIEF EFFORT, THE GOVT WOULD SOON HAVE A PROGRAM TO HELP REPAIR OR REPLACE ABOUT 25,000 DWELLINGS AT AN ESTIMATED COST OF LL 500 MILLION.

5. RECONSTRUCTION.

A. ALTHOUGH LEBANON WISHED TO PRESERVE AN ECONOMY BASED ON PRIVATE ENTERPRISE, IT DID NOT INTEND TO RECONSTITUTE THE OLD SYSTEM WHICH HAD

MANY FAULTS, SUCH AS: HIGH RATES OF INFLATION AND AN UNEVEN DISTRIBUTION OF BENEFITS; AN UNDUE STRESS ON BEIRUT THAT LEFT THE SOUTH, THE

BEQAA, AND OTHER AREAS UNDERDEVELOPED; AN "OVER-EMPHASIS ON THE PRIVATE SECTOR" THAT LED TO CRISES SUCH AS THE INTRA-BANK FAILURE OF 1966; AND A LAISSEZ FAIRE ADMINISTRATION "NOT ADOPTED TO INTERVENTION" AND OFTEN BESET WITH CORRUPTION. THE GOL DID NOT, HOWEVER, INTEND TO CREATE A PLANNED ECONOMY, BUT "AN ORGANIZED ONE." LEBANON COULD USE RECONSTRUCTION TO "CLOSE THESE LOOPHOLES", WHILE RETAINING THE "CRUX OF OUR SYSTEM."

B. LEBANON DID NOT WANT TO CREATE A HUGE NEW BUREAUCRACY TO DEAL WITH

THE TEMPORARY PROBLEMS OF RECONSTRUCTION. INSTEAD, THE MORE THAN 75 BANKS IN LEBANON (WITH 400 BRANCH OFFICES) WOULD BE THE PRINCIPAL MECHANISM FOR ADMINISTERING THE RECONSTRUCTION EFFORT IN THE PRIVATE SECTOR. THE GOL WOULD ACT AS A SORT OF DEVELOPMENT CREDIT INSTITUTION AND ENABLE THE PRIVATE BANKS TO MAKE LONG-TERM LOANS AT FAVORABLE LIMITED OFFICIAL USE

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RATES OF INTEREST IN WHICH THE BANKS THEMSELVES WOULD HAVE ABOUT TEN PERCENT PARTICIPATION.

C. THE ONLY NEW ADMINISTRATIVE ORGANIZATION CONTEMPLATED WAS A DEVELOPMENT AND RECONSTRUCTION BOARD. IT WOULD REPLACE THE MINISTRY OF PLANNING, WHICH WAS STRANGLING IN ITS OWN RED TAPE AND DID NOT HAVE ENOUGH FREEDOM OF ACTION IN SIGNING CONTRACTS OR ESTABLISHING ITS OWN SALARY LEVELS. IN ADDITION, THE CHAIRMAN OF THE RECONSTRUCTION BOARD WOULD REPORT DIRECTLY TO THE PRIME MINISTER. THUS, THE CHAIRMAN WOULD BE A SORT OF "PERMANENT MINISTER," WHO WOULD NOT HAVE TO RESIGN EVERY TIME THE CABINET CHANGED.

5. FOREIGN AID.

A. IN KEEPING WITH THIS TWO-PRONGED APPROACH, THE GOL NEEDED GRANTS TO MEET IMMEDIATE RELIEF NEEDS AND LONG-TERM LOANS AT LOW RATES OF INTEREST TO FINANCE THE LONGER TERM RECONSTRUCTION EFFORT. THE GOL WOULD USE THESE LOANS TO REBUILD THE PRIVATE SECTOR. IT WOULD TAKE, FOR EXAMPLE, ANYWHERE FROM LL 1.5 BILLION TO LL 6 BILLION TO REBUILD THE CENTRAL BUSINESS DISTRICT, DEPENDING ON HOW COSTS WERE CALCULATED

B. THE ARAB COUNTRIES HAD PROMISED IN PRINCIPLE TO PROVIDE AID, AND A PROPOSAL TO SET UP A SPECIAL ACCOUNT FOR LEBANON AT THE ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT IN KUWAIT WAS BEING DISCUSSED. IN ADDITION, LEBANON WOULD BE VERY INTERESTED IN GETTING LONG-TERM, LOW-COST FINANCING FROM THE U.S. LEBANON HAD SIZABLE GOLD RESERVES AND A STRONG RESERVE POSITION, BUT STILL HAD TO BORROW FROM ABRAOD TO PRESERVE THE INTEGRITY OF ITS CURRENCY AND CONFIDENCE IN ITS ECONOMY.

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PERSONAL OPINION, ECONOMIC ASSISTANCE, ECONOMIC RECOVERY, BUSINESS LOSSES, CIVIL DISORDERS  
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**Disposition Approved on Date:**  
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**TAGS:** EAID, LE, US, (AL-HOSS, SALIM)  
**To:** STATE  
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